



Monday, 28 June 2021

Senate Select Committee
Financial Technology and Regulatory Technology
Department of the Senate
Parliament House
Canberra ACT 2600

Via email: fintech.sen@aph.gov.au

Dear Committee,

Thank you for the opportunity to provide another submission in hope of affecting a positive change.

Bitaroo Pty Ltd is Australia's largest Bitcoin-only exchange providing users the ability to buy and trade bitcoin as well as providing them with the ability to withdraw and self-custody their investment(s).

Bitcoin means different things to different people but in essence it is a decentralised open-source digital currency.

Australia faces a very real and prescient opportunity to not only be a part of this emerging technology but to also drive meaningful change within its financial industry and become a prominent and internationally recognised technology and financial centre.

In this submission we specifically address the issue of debanking and its significance as well as some of what needs to be done to position Australia as a global leader in the Bitcoin ecosystem.

Key Recommendations:

1. Acknowledge that in the current monetary environment, banking is an essential utility
2. Recognise Bitcoin as a foreign currency
3. Change taxation laws so that capital gains on foreign currencies are not taxable
4. Clear the way so a Bitcoin Exchange Traded Fund (ETF) could be launched domestically
5. Postpone any discussion around the proposed 'Travel Rule' until other countries discover the multiple issues around implementing it and if eventually implementing this rule, elect for the lightest touch possible that FATF will allow

Debanking

The power that banks hold over their customers is significant. Banks have the ability to freeze accounts instantly, shut them down with little notice and even ban customers from using their services ever again. No reason needs to be given and currently no regulator has the power to force banks to reveal the reasoning behind such decisions, thus leaving many Australians with fewer banking options at best or outright unbanked at worst.





According to Paul Jevtovic, Chief Executive of the Australian Transaction Reports and Analysis Centre (AUSTRAC) in a recent statement, "Australia's AML/CTF Act does not impose requirements on a reporting entity to close accounts or terminate a business relationship". However, the reality remains that individuals, businesses, and digital exchanges particularly have been, are, and will continue to be shut down on a whim without an option to object or any form of government intervention.

After experiencing numerous banking issues, most Australian digital exchanges opted to use a payment processor as their fiat rails banking solution, thus providing them a buffer and protection from banking related interruptions to their core services.

This comes at a cost that is being passed, directly or indirectly, to the users.

There are currently only a handful of such payment processors in the market. Disconcertingly this demonstrates that the entire digital exchanges industry is potentially exposed to almost a single point of failure instead of being able to enjoy the dozens of options that the Australian banking industry has to offer.

A disruption to the digital exchanges' operation could adversely affect the almost 20% of Australians that currently own and buy cryptocurrency and a large percentage of the remaining 80% that might wish to do so in the near future.

The immediate effect it would have on millions of Australians is significant, which is why we urge the committee to acknowledge firstly that banking is an essential utility which should be treated as such, and secondly that individuals and companies should have fair access to receive such services without discrimination.

Australia as a technology and financial centre

There are already a significant number of emerging blockchain-based Fintech companies around the globe, many focused solely on Bitcoin and Bitcoin services.

Such services provide users with better control over their own money and alternatives to traditional and often exclusive financial services. They also offer educational material rarely provided through traditional educational curricula.

Further to this, open-source development of Bitcoin's Lightning Network (a second layer on top of the Bitcoin protocol layer) allows users to send and receive peer-to-peer payments instantly, at minimal cost, and in a trustless manner without the need for a bank or third party. This allows for a highly efficient payment network, rendering existing electronic payments processors unnecessary

Recent investigations and experimentation with Central Bank Digital Currencies (CBDCs) does nothing to address the existing failings of the current legacy financial system, and in fact we would posit that any broad adoption of a CBDC in Australia would be more akin to the actions of a totalitarian/surveillance state. As an example, China has recently been experimenting with a digital yuan with a number of concerning features, including the ability to impose expiration dates to encourage quick spending, as well as the ability to track purchases and administer and collect fines automatically from its citizens. Such a scenario could be described as Orwellian at best, and definitely not the type of society many would aspire to being part of.





Globally, the wealth gap is wider than ever, with Australia currently ranking 15th on the OECD's income inequality scale. In times of inflation the wealthy flee to traditionally 'safe' assets - real estate, gold, bonds - while the most economically vulnerable have no such opportunity. Successive governments have done little to address this divide. Bitcoin, however, fixes this and levels the playing field by allowing anyone to save and hold even the smallest amounts.

Earlier this month El Salvador passed the 'Bitcoin Law', a bill that classifies Bitcoin as its legal tender. The effect this will have on the economy of El Salvador and particularly on its unbanked citizens is profound. It is expected that other countries will soon follow suit.

Living in a country such as Australia it is easy to look past the difficulties that those with no steady income nor bank account experience on a daily basis. Bitcoin can help to free these people and their families from generational poverty by allowing them to save, share and transfer value digitally, instantly, and without the need of a bank or physical financial institution.

On the 13th June 2021 lobby group 'Lobby New Zealand' sent an open letter to New Zealand Prime Minister Jacinda Ardern urging the New Zealand government to recognise Bitcoin as a foreign currency at the same time that it becomes legal tender in El Salvador. We urge the Australian Government to do the same.

The UK for example, exempts gains (and losses) on foreign currencies. Not so in Australia. This leads to a strange scenario in which if one buys USD (thinking they would spend it overseas) but then later exchanges all or part of it back to AUD, this becomes a taxable event.

By recognising Bitcoin as a foreign currency and by exempting capital gains tax on foreign currencies, Australia has a unique but rapidly diminishing opportunity to position itself as a global and forward-thinking leader in this space.

The Australian Government can also support the opportunities that Bitcoin presents by not only welcoming business development in Bitcoin technologies but by also actively taking steps to ensure such development through funding assistance and tax incentives.

The future is coming at us quicker than some may think. Increasingly we are seeing an environment where traditional investors want exposure to virtual assets such as Bitcoin.

Recently, Canada cleared the way for the launch of the world's first Bitcoin Exchange Traded Fund (ETF). We would argue that any emerging legislation around the formation of Bitcoin ETFs in Australia needs to take into account circumstances unique to the Australian market and its consumers.

Proposed 'Travel Rule' legislation, whereby digital asset providers would be required to share and disclose the personal details of its customers and their transactions is one example of a restrictive policy that we believe to be individuals' breach of privacy.

It is regulations such as this that will only act to encumber growth in this sector.

Australia's global position as an affluent and economically strong nation should not preclude it from its responsibility to its citizens to ensure access and participation in domestic and international financial markets is free and open to all while also maintaining the citizens' right to privacy.





In addition, we would urge the committee to carefully assess the ongoing formation of any future regulatory frameworks. Whilst acknowledging that regulation can give greater certainty in this area, imposing overbearing or excessively restrictive regulations on such a burgeoning industry could inversely serve to stifle innovation and leave Australia further behind than it already is. The distinct properties of digital assets necessitate a divergent approach to regulatory frameworks, and we encourage active engagement with businesses and other stakeholders.

Bitcoin is a nascent technology that *will* continue with or without Australia. Our concern is that inaction or worse, erroneous actions, will lead to a dearth of investment in this burgeoning sector and investment and innovation elsewhere. The opportunity for us to embrace a truly decentralised, verifiably scarce, and incorruptible money should not be underestimated. Nor should the haste at which action occur.

Thank you again for this opportunity and your consideration of this submission.

Kind regards,

Ethan Timor
Managing Director
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